

FEDERAL HOME LOAN BANK OF CHICAGO

Anti-Predatory Lending Mortgage Purchase Policy

I. Purpose

The mission of the Federal Home Loan Bank of Chicago (“Bank”) is to support the growth and success of our members’ housing, community investment, and other financing activities, in part by providing secured financing and purchasing residential mortgage loans under its Mortgage Partnership Finance[®] (“MPF[®]”) Program.

The Bank supports the expansion of affordable and equitable homeownership, and recognizes that predatory lending practices are inconsistent with advancing homeownership. To discourage predatory lending practices, the Bank has established this Anti-Predatory Lending Mortgage Purchase Policy (the "Policy"). Mortgage loans and mortgage-backed securities pledged to the Bank as collateral are addressed in the Bank's separate Anti-Predatory Lending Collateral Policy.

II. Policy

A residential mortgage loan ("Mortgage Loan") is ineligible for purchase or funding by the Bank if it does not comply with all applicable federal, state and local anti-predatory lending laws and other laws designed to prevent unfair or abusive lending practices (collectively, "Anti-Predatory Lending Laws"). The Bank will not knowingly purchase or fund a Mortgage Loan which involves any of the following practices or characteristics:

- Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance as a condition of the loan;
- Including in loan documents a mandatory arbitration provision with respect to dispute resolution;
- Charging prepayment penalties for paying off a loan;
- Lending without regard to a borrower’s ability to make payments on the mortgage;
- Loans which violate the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (collectively, “HOEPA Requirements”) or other Anti-Predatory Lending Laws;
- Loans that are ineligible for inclusion in a structured finance transaction due to a rating agency's determination that it cannot rate a transaction which includes such loans; or
- Loans that fail to comply with any requirement of the MPF[®] Program relating to predatory lending, including without limitation, Section 2.6 of the MPF Origination Guide.

III. Monitoring

Most Bank members which are Participating Financial Institutions ("PFIs") in the MPF[®] Program are subject to state or federal banking regulations that prohibit predatory lending practices, and are examined regularly for compliance with such regulations. Because members routinely comply with Anti-Predatory Lending Laws for loans they originate and purchase, the Bank anticipates that this Policy will require little change to members' operations.

In order to ensure effective communication to all interested parties, this Policy: (i) will be included in all publications of the Bank's Member Products and Credit Policy, and (ii) will be posted on the Bank's public website. In addition, the Policy will be distributed to all members and each member will be required to certify to the Bank that: (1) it has received a copy of this Policy, (2) any Mortgage Loan sold to or funded by the Bank is and will continue to be in compliance with this Policy, (3) in the event the member becomes aware that a Mortgage Loan sold to or funded by the Bank does not comply with this Policy, it will immediately repurchase the Mortgage Loan; and (4) it will indemnify the Bank for any damage incurred in connection with any ineligible Mortgage Loan. With respect to mortgages acquired from PFIs in other districts, the Bank will rely on the PFI's representations and warranties to its Federal Home Loan Bank as well as the MPF[®] Program policies and quality control procedures. After the initial Policy distribution, all new PFIs will be given a copy of this Policy before signing a PFI Agreement and will be required to sign a certification as described in the prior paragraph.

The Bank will not knowingly purchase or fund Mortgage Loans that violate this Policy. The Bank will monitor compliance with this Policy for Mortgage Loans: (a) through its quality control process under the MPF[®] Program; (b) by monitoring regulator alerts for newly-issued supervisory agreements, memoranda of understanding, or cease and desist orders pertaining to predatory or unfair lending practices; (c) when appropriate, by reviewing the screening procedures followed by PFIs to ensure that ineligible loans are not delivered to the Bank; and (d) by reviewing, when available, member regulator examination reports for findings pertaining to predatory or unfair lending practices.

If the Bank discovers that any Mortgage Loan purchased or funded by the Bank does not comply with this Policy, the Bank will, in addition to all available rights and remedies at law or in equity, require the PFI: (a) to promptly repurchase the Mortgage Loan; and (b) to indemnify the Bank for any damage incurred in connection with any ineligible Mortgage Loan. In addition, the Bank may require the PFI to undertake a review of its policies, practices, and procedures for compliance with Anti-Predatory Lending Laws and this Policy.

APPROVED BY THE BOARD OF
DIRECTORS THIS 22ND DAY OF
MAY, 2007.

/S/ PETER GUTZMER
Its Corporate Secretary